

# Blue Cross Blue Shield of Michigan Testimony on HB 5282-5

- Thank you and introductions
- Need for reform
- Individual Market is 6% of current market
- Expected to grow to 15-25% in next 5 yrs.
- The current regulation is unsustainable
- BCBSM incurring large losses in individual market. 127% loss ratio.

# BCBSM Testimony on HB 5282-5

- Most states underwent IMR in mid to late 90's
- We looked at other state models in developing plan
- States were either Guarantee issue or had a High risk pool
- 34 states had high risk pools
- 28 of those had a carrier assessment
- Tried to balance the needs of consumers with making the plan sustainable over time

# BCBSM Testimony on HB 5282-5

- The first two bills in the package deal with Market reform.
- The next two bills deal with another important issue for Michigan's economy.
- They would allow BCBSM's subsidiaries to be able to write multiple lines of insurance.
- In 1994, when the state privatized the Accident Fund, no one knew what would happen when a state agency became a private insurer.
- Restrictions were put in place to limit the scope of the AF to worker's compensation insurance.
- 13 years later, the AF is a growing, Michigan success story, recently announcing its plans to build it's new national HQ in downtown Lansing, creating needed jobs in the area.
- Removing this archaic restriction will help the AF continue to grow in Michigan.
- As BCBSM's for-profit subsidiaries thrive, the dividends they provide the parent allows us to keep health costs down in Michigan.

# BCBSM Testimony on HB 5282-5

- Paul will go over some of the details of how the regulations would work in the first two bills.

# **Current Michigan Health Insurance Market Need for Change**

- Rating and Underwriting rules are inconsistent between commercial insurers, HMOs and Blue Cross Blue Shield.
- The inconsistent practices allow commercial insurers to “cherry pick” the best risks and to rate up individuals as their personal health conditions change.
- Blue Cross is forced to community rate much of its business and accept all applicants (Guaranteed issue) including those rejected by the commercial insurers.
- Blue Cross must receive prior approval for rate increases which generally results in delays and inadequate rates.

# **Current Michigan Health Insurance Market Need for Change**

- Large rate increases are often required because of the disproportionate share of high cost individuals BCBSM insures. As BCBSM's rates have increased, most low cost individuals have cancelled and gone to competitors. BCBSM's nongroup subscribers do not benefit from the fundamental insurance principle of spreading the high cost individuals over a broad base.
- BCBSM collects subsidies of \$135 million from its group customers, but still suffers underwriting losses of approximately \$150 million. This is not sustainable.
- A recent Milliman report concluded pure community rating and guaranteed issue rules result in higher number of uninsured and is not good public policy.

# **Current Michigan Health Insurance Market Need for Change**

- Consumers currently have no protection against abusive rating and underwriting practices of commercial carriers who are allowed to significantly increase rates at renewal due to worsening of an individuals' health conditions
- As more groups drop coverage for active workers and retirees, the importance of individual market reform increases dramatically.

# Features of Rating Proposal

1. All HMOs, commercial carriers and nonprofit health care/corporations (Blue Cross) are subject to the same rating and underwriting rules.
2. Carriers who have loss ratios below 70% will have to refund premiums to reach this minimum loss ratio. In addition, the Attorney General will have authority to enforce an order if BCBSM's loss ratio exceeds 70%.
3. All carriers can rate applicants in one of 10 rating tiers based on their health status at application with a maximum factor of 2 to 1. The rating tier assigned at application can not change should health conditions worsen.
4. Carriers can decline a new applicant based on their health condition but BCBSM will issue a Guaranteed Access Plan (GAP) to cover these applicants.



## **BCBSM's Exclusive Commitments**

1. BCBSM will administer at least four benefit options under a Guaranteed Access Plan (GAP) that will provide access to any Michigan individual.
  - BCBSM will underwrite all the administrative costs for this program and losses up to a loss ratio of 105%. BCBSM will underwrite all costs for two years.
  - Beginning in the third year, should the losses in excess of the 105% loss ratio exceed \$10 million, OFIS will assess the individual health insurance market (including BCBSM) for these losses.

## **BCBSM's Exclusive Commitments**

2. Rates charged for the GAP coverage will not exceed 150% of the standard market average cost at the highest health status factor.
3. BCBSM will grandfather the current subscribers in the community rated pools and limit future rate increases.

This should assure a stable transition to the new rating law.

## **Consumer Protection Features**

- Insurers can not increase future rates as individuals' health conditions change. The practice of closing blocks of business and rating up individuals significantly will stop.
- The rating factor of an unhealthy new applicant is limited to twice the healthiest rate.
- The law will encourage consumers to maintain coverage thus reducing the number of uninsured.
- A fair rating law will encourage competition rather than “cherry picking.”
- Rate increases should be stabilized in the future (as with small group reform).

# BCBSM Testimony on HB 5282-5

- Paul mentions the success of the small group reforms implemented in 2004
- Many of the same opponents of this reform also opposed the small group reforms
- They said they would flee the state, that BCBSM would take over the Market and that rates would skyrocket as a result
- They were wrong, OFIS report released earlier this year concluded competition had increased, the Blues had lost small group market share and rate increases had stabilized.

# BCBSM Testimony on HB 5282-5

- Opponents of Individual Market Reform will make the same claims this time
- They will be wrong again.
- If your business model is to insure only healthy 25 year olds until they get sick, and then jack up their rate at renewal in order to dump them back on the market, you will not like this legislation.
- But if you look at it in the context of the consumer and what is happening in other states, these bills will be good for Michigan just like the successful Small group reforms many of you supported in the past.



A nonprofit corporation and independent licensee  
of the Blue Cross and Blue Shield Association

**Contact: Helen Stojic 313-225-8113**

**Immediate**

**Statement**

**Legislation Will Protect Michigan Consumers by Stabilizing and Strengthening  
Michigan's Individual Health Insurance Market**

***Bills Would Limit Rate Increases for Insurance Renewal***

**DETROIT**--Nonprofit Blue Cross Blue Shield of Michigan supports a package of bills introduced in the Michigan House of Representatives on October 10 that will protect tens of thousands of Michigan residents who receive health insurance coverage on their own, outside of employer-sponsored coverage. The legislation, known as Individual Market Reform, changes outdated regulations in Michigan's individual insurance market and helps stabilize the market as more individuals seek to purchase insurance on their own.

Right now, for-profit private insurance companies have no limits on how much they can raise premium rates at renewal for persons who experience a change in their medical conditions during their coverage periods. The proposed legislation will limit the size of rate increases for insurance renewals. This will protect people from unlimited premium increases at renewal that have the effect of pricing them out of the market for coverage.

Like reforms that were adopted by the Michigan Legislature four years ago for the small employer health insurance market, the proposed legislation creates a fair but competitive playing field for all insurance carriers. It also recognizes and maintains the role of BCBSM as the individual health insurance safety net for the Michigan residents by requiring BCBSM to continue to offer coverage to individuals who cannot obtain it from other carriers.

The proposed legislation would:

- Create a more competitive climate for consumers by establishing uniform pricing practices for insurers and setting some limits on renewal rates. The intent is to limit cherry picking that enables commercial insurers to profit off the healthy and not cover the sick. Their current pricing model of avoiding individuals with medical conditions is not sustainable as the market for individual coverage grows.

-more-

- Create a guarantee access pool for people who are denied coverage by other insurance companies. BCBSM will continue its role as the insurer of last resort (safety net) for the individual market. The company will assume all of the administrative costs for the pool and its benefit costs unless a certain threshold is reached. If the threshold is reached, all other insurance companies will pay some assessment into the pool based on market share, still leaving BCBSM as the largest contributor. Thirty-four other states have guaranteed access pool funded by the insurance industry.
- Give the Insurance Commissioner regulatory oversight of premium rate setting while requiring all insurance companies use the same system for setting their rates. The legislation enables regulators to examine rates to make sure the percent of dollars paying for medical claims is equitable.

The Blues said that the individual insurance market is overdue for reform. Most states reformed the individual market when they made changes in their insurance markets for small businesses. In Michigan's case, changes to the small business insurance market went into effect in 2004 but reform was not enacted for the individual market.

The Michigan Office of Financial and Insurance Services, which was charged to evaluate the reforms that went into effect in the small business market, has issued a report showing that small group insurance reform stabilized the market for small business. The report said, "Much concern was expressed over the exodus of carriers in the market while concern was expressed that BCBSM market share would climb. This did not occur." BCBSM fully expects for-profit private insurance carriers who raised alarms that did not materialize in the small group market will raise the same issues in an attempt to block the individual market reform legislation.

Under the proposed legislation, a prohibition will be removed to allow BCBSM subsidiaries like the Accident Fund Insurance Company of America, a workers compensation insurer, to offer multiple lines of insurance. While Accident Fund's competitors can offer multiple line of insurance, Accident Fund cannot. The legislation would correct that imbalance. Accident Fund is a Michigan-headquartered national company with a record of growth that has provided jobs and dollars to the state.

BCBSM is nonprofit and an independent licensee of the Blue Cross and Blue Shield Association.

#

#

#

# Memorandum

**To:** House Colleagues

**From:** Representatives Virgil Smith, Barb Farrah, Ed Gaffney, Joe Hune

**Subject:** Individual Market Reform Co-Sponsorship

**Date:** October 10, 2007

---

Today on my desk, I will have 4 bills available for your co-sponsorship which would reform the individual health insurance market. The market for individual health insurance in Michigan is changing dramatically. People are losing employee-sponsored health coverage and the demand for individual coverage will grow to 15 -25 percent of the market in the next five years.

Michigan residents are faced with a difficult situation when looking to purchase individual health insurance including rating practices that are inconsistent, rates increasing dramatically when they become sick, and insurers raising rates as much as they want. Supporting Individual Market Reform (IMR) gives the people of Michigan reduced cherry-picking, guaranteed access to coverage, fair rate increases, more stable health insurance rates when people become ill, and sustainability of the individual market. The IMR proposal would implement an industry-wide "risk-spreading" mechanism for the individual health insurance market.

Much like the successful small group market reforms of 2003, the bills would establish a tiered rate band system and allow carriers to create up to a 10 rating tiers. Carriers would be allowed to establish up to 10 geographic areas in the state and include rate differentials based on age and initial health condition only. Rate bands ensure a cap on rate increases upon renewal regardless of health conditions so that individuals can be assured that they are covered when they need it most.

The bills would establish a guaranteed access health benefit plan that would offer access to individual health insurance to anyone denied coverage by a carrier. BCBSM would pay to administer the benefit plan and would be prohibited from charging premium rates that are more than 150 percent of the highest premium for the top five carriers' equivalent health benefit plan.

To offset excess losses, the bills would require that after 2 years following the plans inception the carriers would contribute a "cherry picking" penalty to the guaranteed access health benefit plan based on each carrier's share of the individual market. The bills would require minimum loss ratios to be equal to or exceed 70 percent. Minimum loss ratios help control the costs of premiums and ensure premiums are not excessive to policyholders.

The bills would also allow BCBSM's subsidiaries only to offer multiple line of insurance. With the ability to introduce multiple lines of insurance, BCBSM subsidiaries can continue to grow, and new employees and economic growth will stay in Michigan. The strength of BCBSM subsidiaries provide revenue to the state and helps to keep health insurance premium rates low. In doing so, BCBSM is able to continue to operate on a health care margin of less than 1 percent.

I welcome and encourage your co-sponsorship.





# What Opponents of Individual Market Reform Would Have You Believe

# What to Expect from Opponents of Individual Market Reform

As Individual Market Reform moves forward, you are likely to hear the following from those opposed to the legislation.

**The Opponents:** The group opposing the legislation calls itself the Coalition for Access and Affordability in Michigan.

**Who they really are:** The group consists of The Council for Affordable Health Insurance, which is funded by for-profit commercial insurers, the Life Insurance Association of Michigan, Aetna, Assurant, United Healthcare/Golden Rule, Humana and others. In short, this “coalition” is nothing more than special-interest groups and giant for-profit insurers - and most are not based in Michigan, taking their profits out of state.

## What they say

*Opponents say: This legislation calls for pure community rating, which does not work. It has failed in other states.*

- The legislation does not call for community rating, which is the practice of setting one rate for a population or geographic area. The legislation calls for a tiered set of rates based on a standard set of criteria.
- A report by the Insurance Commissioner also states that the rating approach for Small Group Market Reform, which is the same approach for the individual market, did not harm for-profit insurers; they actually saw an increase in market activity.

*Opponents say: The legislation will make all insurers guarantee coverage for everyone and allow the Blues to abandon its mission as carrier of last resort.*

- The reform package will not force insurers to accept everyone. The legislation *unequivocally* states that Blue Cross Blue Shield of Michigan will continue its traditional role of accepting everyone regardless of health condition. We believe that health care needs to be available for people who need it. We cover the people that the for-profit insurers refuse to cover. Health insurance is about people, not profits.

*Opponents say: The legislation will eliminate competition in the state, increase costs and reduce access.*

- These are the same accusations used four years ago against Small Group Market Reform. A report by the Insurance Commissioner in May 2007 concluded that the reform actually:
  - Increased competition: The commercial insurers did not leave the state, and they actually increased market share at the expense of BCBSM's share of the small group market.
  - Moderated costs for Michigan small-business owners

*Opponents say: The legislation would eliminate oversight and accountability of rates for the Blues.*

- The for-profit insurers now operate virtually uncontrolled in Michigan. The reforms would give authority to the Insurance Commissioner to regulate all insurers equally and protect Michigan residents by creating a uniform system of checks and balances to ensure fair rates for Michigan consumers.

*Opponents say: Federal law prohibits dropping people from coverage when they become ill.*

- For-profit insurers can pick and choose (cherry-pick) the people they cover. Nationally, commercial insurers reject 20-30 percent outright. A for-profit insurer can't "drop" a person because of health reasons, but there are no laws that prevent them from jacking up rates at renewal to ensure their profitability - which prices many people out of coverage. The for-profit insurers' practice of rejecting people is not fundamentally changed by the legislation. However, people will be more protected by the reforms because the Blues will continue to guarantee access for everyone, and all insurers will follow a fair, uniform method for rate renewals.

*Opponents say: The legislation will reduce access and affordability and dramatically impact the young and healthy.*

- The reforms will provide uniform rating and pricing practices that will provide *all* Michigan consumers with access to more coverage. The opponents are only concerned about one segment of the market: the young and the healthy. Why? Because they are profitable. When they do buy coverage, they rarely use it. When they use it, their rates go up. Those who oppose reform are not concerned about people; they're concerned about profits.

*Opponents say: The Blues don't pay Michigan income tax or property tax.*

- The Blues pay federal taxes and our subsidiaries pay the same state of Michigan and federal taxes as everyone else. In addition, we finance several times our tax-equivalent value in social mission responsibilities that benefit the State and its residents. For example:
  - MICHild for children
  - Medigap coverage for seniors
  - Free clinics throughout Michigan
  - Insurer of last resort (covering those the for-profits won't)

*Opponents say: The Blues should have restrictions put on their reserves.*

- The Blues' reserves are already mandated by state law and the Blue Cross and Blue Shield Association. The reserves are below the state limit. The Michigan Blues are one of only two Blue plans that have mandated minimum and maximum reserve levels. The Blues need healthy reserves for the benefit and protection of our customers and members.
- For-profit insurers also have reserves. In addition, they have the ability to raise capital quickly.

*Opponents say: The Blues should pay state income taxes because Medicaid is the state's insurer of last resort, not the Blues.*

- Medicaid is a state program for low-income residents and is not considered the insurer of last resort. Unlike Medicaid, these bills would ensure individuals access to health insurance regardless of their income.